

## **Supporting Statement for the Notice of Proposed Stock Redemption (FR 4008)**

### **Summary**

The Division of Banking Supervision and Regulation proposes to extend for three years, without revision, the Notice of Proposed Stock Redemption (FR 4008; OMB No. 7100-0131). The Federal Reserve System requires certain bank holding companies (BHCs), based on an amount of redemptions over a defined period, to give written notice to the appropriate Reserve Bank before purchasing or redeeming their equity securities. There is no formal reporting form. The Federal Reserve uses the information to fulfill its statutory obligation to supervise BHCs. The current annual burden for the FR 4008 is estimated to be 171 hours.

### **Background and Justification**

Under Section 225.4(b) of Regulation Y, a BHC, is required to give the Federal Reserve prior written notice before redeeming its equity securities if the gross consideration for the redemption, when aggregated with the net consideration paid by the company for all such redemptions during the preceding twelve months, is equal to 10 percent or more of the company's consolidated net worth.<sup>1</sup> A BHC is exempt from the notice requirement if it is well capitalized before and immediately after the redemption, is well managed, and is not the subject of any unresolved supervisory issues. The criteria for well capitalized and well managed are provided in sections 225.2(r) and (s) of Regulation Y.

The Board may disapprove a redemption notice if the proposal would constitute an unsafe or unsound practice, or violate any law, regulation, Board order, directive, or any condition imposed by, or written agreement with, the Board. In reviewing a stock redemption notice, the Board would consider, after giving effect to the proposal, whether the BHCs financial condition meets the financial standards applied under section 3 of the BHC Act, including the Board's Capital Adequacy Guidelines (Appendix A to Regulation Y) and the Board's Policy Statement for Small Bank Holding Companies. A BHC may request a hearing on a notice of disapproval, and at the conclusion of the hearing, the Board shall by order approve or deny the proposed redemption on the basis of all facts of record.

The stock redemption notice provides the only source of information available to the Federal Reserve System on the structure of the transactions and the effect of the redemption on the financial condition of the BHC. The information submitted in the notice is used in determining if the proposal is financially sound and consistent with prudent banking practices.

### **Description of Information Collection**

Filing requirements and informational contents of the notice are stated in Regulation Y (12 C.F.R. 225.4). There are no uniform instructions; Reserve Banks provide instructions to BHCs on a

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<sup>1</sup> Net consideration is the gross consideration paid by the BHC for all of its equity securities purchased or redeemed during the period minus the gross consideration received for all of its equity securities sold during the period.

case-by-case basis. The notice is not subject to specific format requirements but must contain the following information:

- Purpose of the transaction;
- Description of the type and amount of securities to be purchased or redeemed;
- Number of each class of shares outstanding;
- Gross consideration to be paid;
- Terms and sources of the funding for the proposal;
- Description of all equity securities redeemed within the preceding twelve months, the net consideration paid, and the terms of any debt incurred in connection with the redemptions; and
- Current and pro forma balance sheets.<sup>2</sup>

### **Time Schedule for Information Collection**

The notice is event-generated and must be filed prior to a BHC redeeming its shares. Within fifteen calendar days of receipt of a notice, the appropriate Reserve Bank either approves the transaction or refers the notice to the Board for a decision. Notices referred to the Board are acted on within thirty calendar days of the Reserve Bank's receipt of the notice. There is no publication requirement for this notice.

### **Legal Status**

The Board's Legal Division has determined that 12 U.S.C. § 1844(c) authorizes the Board to require this notification. Individual respondent information in the notification is generally not considered confidential.

### **Consultation Outside the Agency**

There has been no consultation outside the Federal Reserve System.

### **Estimate of Respondent Burden**

The current annual reporting burden, based on the average number of respondents in 2002 and 2003, is estimated to be 171 hours and represents less than 1 percent of the total Federal Reserve System burden.

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<sup>2</sup> BHCs with consolidated assets of \$150 million or more generally provide pro forma consolidated data; smaller BHCs provide pro forma parent-only data. The larger BHCs provide risk-based capital and leverage ratio calculations as of the most recent quarter, while parent-only pro forma balance sheets are required only if the redemption is to be debt-funded. Smaller BHCs with assets of less than \$150 million must provide parent-only pro forma balance sheets and, if the redemption is debt-funded, one-year income statements and cash flow projections. BHCs also submit balance sheets as part of the Annual Report of Bank Holding Companies (FR Y-6; OMB No. 7100-0124) and the semiannual or quarterly Financial Statements for Bank Holding Companies (FR Y-9; OMB No. 7100-0128). Where the as-of date of those reports is sufficiently close to the date of the proposed redemption, copies of the balance sheets for those reports may be submitted with the notice to meet the requirement for a current balance sheet.

	<i>Number of Respondents</i>	<i>Annual Frequency</i>	<i>Estimated Average Hours Per Response</i>	<i>Estimated Annual Burden Hours</i>
FR 4008	11	1	15.5	171

The estimated annual cost to the public is \$8,550. The cost per hour is estimated at \$50, based on the assumption that the notice is prepared by a bank officer.

### **Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

### **Estimate of Cost to the Federal Reserve System**

Annual costs associated with providing the instructions for this notice are negligible. There are no mailing or printing costs incurred by the Federal Reserve System in administering this notice.